

Financial Crisis Of A Health Clinic: A Case Study

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ABSTRACT

The Northern Indiana Health Clinic (NIHC) is a small community, non-profit health organization located in northern Indiana. Over the last 18 months, local factories have downsized or closed their doors, residents have left the community, and the number of uninsured individuals has continued to escalate. NIHC is not immune to the economic misfortune and closed out last year with its first operating loss in the last three years. The outlook for the coming year looks even more dismal and places NIHC in financial jeopardy. The CEO has presented a number of recommendations to the board of directors for consideration. The board hired a consulting company to analyze the CEO's proposal and provide long-term solutions that will turn around the current financial direction without sacrificing patient care.

Note that this case is based on real events, although the name has been changed. The financial statements and other information presented are based on the actual numbers reported by the Health Clinic.

Key Words: Healthcare, Financial Failure, Non-Profit, Health Clinic

INTRODUCTION

Northern Indiana Health Clinic (NIHC) has been in existence for three years. The first two years were a struggle financially; nonetheless, a positive bottom line was achieved. Last year, the clinic fell victim to the growing economic crisis in the rustbelt states. Local communities were devastated by massive job losses, resident flight, and a steep rise in the number of individuals without any form of health insurance coverage. As a result, the clinic experienced declining patient service income coupled with increasing bad debt and escalating expenses.

Facility closure is not an option. Over 14,000 patients rely on NIHC for primary medical care. Without the clinic, many of these patients would delay necessary medical treatment or forgo care altogether. To address the financial crisis, the board of directors reviewed the recommendations of the NIHC CEO and subsequently hired a consultant to consider the CEO's recommendations as pertinent to the long-term survival of the clinic.

NORTHERN INDIANA HEALTH CLINIC FACES FINANCIAL CRISIS

The need for the Northern Indiana Health Clinic (NIHC) arose from events which occurred over three years ago. Three local family physician offices were under severe financial distress and were contemplating a move to more populated communities. Their closure would have place thousands of at-risk elderly, disabled and indigent area residents without accessible primary medical care. In order to prevent further medical provider deterioration, a dozen local residents of the two counties came together to form the NIHC. Their goal was to standardize operational policies and procedures, reduce administrative costs and prepare to expand service delivery in the service area. The NIHC Board assumed liability for costs and, in accordance with federal guidelines, maintained oversight and accountability for financial, programmatic and operational management. NIHC's mission is, "to promote health care service programs and to establish, maintain and promote community health centers and other outpatient health care delivery facilities that will provide high quality primary health care services to the community, with particular focus upon the health care needs of the medically underserved population of the communities".

NIHC was incorporated as a 501(c) (3) non-profit domestic corporation in late 2007. The governing board assumed full authority and oversight responsibility in January 2008. The board work closely with the CEO and physicians to ensure that services support the mission and meet all governance requirements for health centers addressed in law, regulations and policies. NIHC employs three full-time physicians (one at Office #1) and two part-time nurse practitioners (1 at each office). Clinicians are supported by three full-time medical assistants (one at Office #1), and three part-time medical assistants, one part-time lab technician split between both offices and administrative staff consisting of three full-time receptionist (one at Office #1), four full-time medical billers and collection specialist (two at each office), two part-time office support staff, a chief financial officer (CFO) and a chief operating officer (COO).

Last year, NIHC provided medical care to 7,154 patients with 26,802 encounters for (service area population is 37,370). Over 1 in 5 patients (21%) are over age 65 and an estimated 58% live below 200% of Federal poverty guidelines and about 1 in 4 (23%) lives below 100% poverty level. These patients often present with multiple and serious illnesses and face significant access-to-care barriers consisting of transportation and monetary means. The service area exceeds Indiana mortality rates in seven of the top ten causes of death in the state. Rates for heart disease and stroke are nearly twice as high as those of the state and rates for influenza/pneumonia are nearly three times higher than state average rates. Without the services of NIHC, thousands of patients would have to travel long distances or utilize emergency room services (increased cost) to access basic primary and preventive care services. Through direct service and collaborative partnerships, NIHC services are available to all persons in the service area regardless of age, gender, or the patient's ability to pay and ensure the availability, accessibility, quality and comprehensiveness for primary, preventive and supplemental health services.

As a bi-county, multi-community based non-profit health clinic, NIHC's objective is to perform a wide range of community needs, ranging from providing accessible quality health care and health education to encouraging prevention and wellness. Although nationally health centers may be in a growth industry, as individuals are living longer and requiring more medical treatment throughout their lifetimes due to advancements in technology and scope of services, the operational costs (Tables 1 & 2) are drastically increasing and the population of the service areas is decreasing at an annual rate of 1.2%. In addition, the current blended unemployment rate for both counties ranks second in the state at 13.2%, and the projected rates are expected to reach 15% by mid-summer. Factory closures and layoffs have only added to the state's highest poverty level per capita. This has led increasingly more of community residents towards Medicaid, or worse, un-insurance, which makes for a perfect financial storm for NIHC.

The declining revenue and profitability are attributed to decreasing numbers of patients seeking medical treatment due to the loss of insurance coverage, inability to pay for medical care because of rising co-pays and deductibles, and decreasing service area population. NIHC's financial outlook is further strained by escalating operational expenses in billing software and processing fees, insurance (employee and medical malpractice), and NFS bank fee. Expenses must be reduced by a minimum of 15% to 20, revenues increased by 15% to 20%, or a combination of cost reduction and revenues enhancements which would result in positive net income in the coming year.

Many of the financial problems are linked to operational overhead cost. NIHC has two free-standing medical offices in two adjacent counties; the offices are about 20 miles from one another. The crisis is further complicated by the aspiration to treat all patients regardless of their ability pay, which includes the uninsured and their exponentially mounting unpaid medical bills. NIHC has continued to increase its allowance expense for patient's bad debt (uncollectible). This expense item is for those patients unable or unwilling to pay for services. As NIHC writes off more patient services, the amount of financial assistance NIHC provides to various charitable organizations for medical assistance will increasingly suffer. While the NIHC Board struggles with cutting benevolence, it has been determined to be a necessary step in returning the health clinic to financial wellness. The board's consideration to reduce financial assistance does not mean it will not offer necessary medical treatment to those in need, regardless of their ability to pay for the services. It does mean NIHC will limit financial assistance only to those considered an "emergency" case

Over the past two years, NIHC has seen a substantial increase in the absolute number and proportion of patients covered by Medicare and Medicaid. It has also experienced delays in reimbursement from all payer types and this has significantly increased administrative costs, particularly in billing. In addition to disputes with both the federal and state health care reimbursement programs, NIHC has constantly struggled with private health insurance companies about what it considers “reasonable and customary” charges for the services it provides.

On the revenue side, one part of any solution to the financial crisis is to make certain that the offices properly charge patients for each and every procedure. In some instances, procedures are not billed due to misfiled documents or the medical provider gets in a hurry and fails to chart each procedure. This lack of attention to detail correlates to increased costs and lost revenues, even though medical services were provided to patients. The goal for the clinic is to document, bill, and seek reimbursement for any and all procedures performed. The first step in reaching the “revenue” goal is to instruct all employees to be more diligent about recording the treatment and services rendered to each patient. The second step would be to have the treating physician or nurse practitioner review each patient’s medical chart to ensure that all tests and/or procedures performed are charted and are captured as services performed. The Health Clinic patients must continue to receive the same high level of medical care they have come to expect, and the health clinic’s management team shall commence disciplinary action against any employee involved in inappropriate billing practices.

The annual increases in operational expense, decreasing population, delayed reimbursements, increased poverty and unemployed levels, have tested the health clinic’s ability to remain financially solvent. NIHC’s Board of Directors recently convened and discussed the recommendations of the CEO:

- Liquidation of NIHC
- Search for organization to assume NIHC
- Acquire one or more other family practices to reach economies of scale
- Close one existing office
- Reduce Staff
- Wage reductions
- Reduce or eliminating community educational programs
- Discontinue certain medical procedures
- Require advanced payment on all office visits, procedures and prescriptions
- Move physicians from salary to production (pay per encounter)
- Relocate to lower rent facility(s)
- Decrease hours of operations. (currently 8am-6pm M-F and 8am-3pm Sat)
- Eliminate or share in cost of Health insurance for Physicians (NIHC pays 100% of premiums and health insurance is only offered to Physicians)
- Proper documentation of all services and procedures provided
- Decrease charity donation and assistance

After a long day of debate and discussion, the board chose to discard the thoughts of liquidation or selling the clinics. Whereas these two suggestions might appear to be a possible solution to the current crisis, the board stated several reasons not to liquidate or sell the organization:

- Concern that the clinic may lose the trust of the communities it serves.
- The board is strictly opposed to filing bankruptcy or closing the doors. Its thought is that a large number of the clinic’s patients would go without desperately needed medical care.
- The board will not consider selling the clinic. New owners may impede the clinic from treating any charity cases.
- The board is concerned another owner may treat patients based exclusively on financial decisions, instead of medical decisions which jeopardizes patient care and safety?

The board’s final decision was to remove the CEO, who has been ineffective at a successful turn-around strategy over the last year. As there is no single solution or “magic pill” for this complex problem, the board decided to bring in an outside consultant to assist in hiring a new CEO, and to provide realistic and workable solutions that

coincide with NIHC's mission. All employees and board members are expected to provide the consultants with anything they need.

The justification for a consultant and these changes is simple: These health clinics need to stay ahead of this problem. If it does not manage the problem, the problem will control NIHC. The board of directors is committed to making changes so that the health services offices continue to serve the communities for many years to come. To continue its mission, NIHC will have to focus on these urgent issues. Its goal is to do so systematically, with integrity, and with the interests of each patients being considered as part of every decision. The board truly believes the necessary changes can be made without sacrificing patient care and without alienating the medical or the support staff of these health clinics. This program will require a fairly small commitment from every employee. These small commitments by all employees will allow NIHC to remain financially viable, and avoid a worst case scenario of laying off workers or reducing the type and scope of services offered to the communities it serves.

CONCLUSION

The present financial condition of NIHC requires a quick, decisive and a prudent long-term strategic solution to ensure that the residents of the service area will continue to have access to local, affordable, quality primary health care services for many years to come. The role of the hired consultant is to analyze and understand the current financial situation and offer recommendations to the board of directors in the form of cost reductions and/or revenue enhancements. All recommendations must be made within the context of providing quality community health care.

AUTHOR INFORMATION

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Table 1

	Northern Indiana Health Clinics					
	Profit & Loss					
	Last Year Office #1	Last Year Office #2	TOTAL Last Year	Next Year Office #1	Next Year Office #2	TOTAL Next Year
Income						
Fee Refunds	1,347	2,529	3,876	800	1,700	2,500
Misc. Fees	212	881	1,093	300	700	1,000
Patient Fees	523,554	871,239	1,394,793	505,243	819,810	1,325,053
Total Income	\$525,113	\$874,649	\$1,399,762	\$506,343	\$822,210	\$1,328,553
Expenses						
Advertising	1,135	1,557	2,692	900	1,600	2,500
Billing Software & fees	12,400	9,810	22,210	13,020	10,301	23,321
Charity	19,800	51,298	71,098	22,000	48,000	70,000
Computer Repairs & Equipment	3,255	2,164	5,419	2,200	2,800	5,000
Contract Labor	2,655	7,716	10,371	3,000	7,000	10,000
Dues and Subscriptions	980	2,645	3,625	1,000	2,500	3,500
Equip. Rental (2 Copiers each Office)	5,725	6,018	11,743	6,000	6,000	12,000
Insurance - Health & Life Ins.	12,357	37,288	49,645	14,458	43,627	58,085
Insurance - Liability & Work Comp	2,276	3,933	6,209	2,350	3,950	6,300
Insurance - Malpractice	24,005	31,017	55,022	25,000	33,048	58,048
Loan Interest	3,833	7,966	11,799	4000	6700	10,700
Janitorial	4,420	6,225	10,645	4,500	5,500	10,000
Laboratory Fees	433	843	1,276	450	750	1,200
Legal & Professional Fees	5,750	5,750	11,500	6,500	6,500	13,000
Medical Director Fees	3,000	3,000	6,000	3,000	3,000	6,000
Medical Supplies	7,234	17,389	24,623	7,500	16,500	24,000
Mileage	5,332	1,754	7,086	5,300	1,700	7,000
Miscellaneous	1,855	4,453	6,308	2,000	3,000	5,000
Office Expense	6,334	11,456	17,790	6,900	11,600	18,500
Payroll Expenses	333,500	536,933	870,433	334,000	536,000	870,000
Printing and Postage	2,352	3,021	5,373	2,050	3,450	5,500
Professional Fees & Development (\$3,000 per yr per Physician)	3,000	4,339	7,339	3,000	6,000	9,000
Rent (Landlords are 2 of 3 employed Physicians)	50,000	62,700	112,700	52,000	65,208	117,208
Repairs (Lessee pays 1st \$1,000 per year)	1,000	544	1,544	800	700	1,500
Telephone	10,877	11,530	22,407	11,000	11,000	22,000
Trash/Snow Removal	655	4,726	5,381	700	4,300	5,000
Travel, Meals & Entertainment	1,316	3,191	4,507	1,450	2,550	4,000
Uncollectable W/O's	31,413	52,274	83,687	60,629	98,377	159,006
Utilities	11,433	12,025	23,458	11,810	12,422	24,232
Total Expenses	\$568,325	\$903,565	\$1,471,890	\$607,517	\$954,082	\$1,561,600
Net Income	(\$43,212)	(\$28,916)	(\$72,128)	(\$101,174)	(\$131,872)	(\$233,047)

Table 2

Northern Indiana Health Clinic Balance Sheet Last Year		Total
ASSETS		
Current Assets		
Bank Accounts		
Checking Account		8,733
Total Bank Accounts		8,733
Accounts Receivable		
Accounts Receivable		221,030
Allowance for Uncollectable		(82,781)
Total Accounts Receivable		138,249
Other Current Assets		
Due from Others		7,294
Prepaid Insurance Expenses		509
Total Other Current Assets		7,803
Total Current Assets		154,785
TOTAL ASSETS		\$154,785
LIABILITIES AND EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		47,112
Accrued A/P		24,400
Total Accounts Payable		71,512
Other Current Liabilities		
Payroll Liabilities		33,382
Total Other Current Liabilities		33,382
Total Current Liabilities		104,894
Long Term Liabilities		
Loan #9001		129,102
Loan #9002		74,951
Total Long Term Liabilities		204,053
Total Liabilities		308,947
Equity		
Retained Earnings		(65,094)
Net Income		(89,068)
Total Equity		(154,162)
TOTAL LIABILITIES AND EQUITY		\$154,785